SOUTH DAKOTA
Division of Banking

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Due Diligence Review Procedures

Prior to designating a servicing agent for its fiduciary activities, the serviced institution should document its efforts to exercise reasonable caution in selecting agents. Compatibility and performance should be considered in conjunction with the cost of the services to be provided. The scope of the due diligence may depend upon the type and significance of outsourcing activity. However, detailed below are some of the most common considerations in any due diligence review. The listing does not supersede provisions of law or regulation, nor does it preclude additional concerns that may occur in some situations.

- An assessment should be made of the servicing organization’s ability to handle the volume and nature of trust accounts and assets to be serviced. Obtaining a list of servicer references and contact names is common practice.

- The financial strength and viability of the servicing organization should be considered. In this regard, the strength provided by a parent holding company or similar organization may also be considered. This would entail a review of financial statements and audit reports, and a search of pending or threatened financial or legal claims.

- If investment management is being outsourced, then a review of the servicer’s investment performance (over a minimum of 5 to 10 years, or several investment cycles) should be reviewed. SEC advisers Form ADV, if required, may provide some insight on the registered investment advisers investment philosophy.

- Audit or supervisory evaluations of the servicing organization, if available. Depending upon the outsourced function, management may obtain AICPA Statement of Auditing Standards SAS 70 Report if conducted, or other available reports.

- A review of certain policies, procedures, and controls of the servicing organization should be made. Knowledge of a service provider’s business strategies, privacy policies, service philosophies, and quality control initiatives may be beneficial in choosing a firm whose standards correspond to the bank’s standards.

- Evidence supporting the maintenance of fidelity insurance coverage by the servicing organization should be obtained.

In addition to performing an initial review of the servicing agent, management has a responsibility to monitor and periodically update its documentation on the condition and activities of the servicing organization, while ensuring that the provisions of the agreement are being met. At a minimum, the institution's monitoring program should incorporate:

- Conducting, or reviewing results of, independent audits of the service provider's operation;

- Verifying and reviewing the adequacy of the service provider's contingency plans; and

- Developing contingency plans in the event of deteriorating performance or other problems encountered with the service provider.

- Monitoring the investment performance of the servicer, if the servicer provides investment management services.